

Insurance and catastrophes: Protecting consumers in the event of an emergency - January 2009

HB1564/SB5417

HB1565/SB5416

HB1566/SB5669

2007 floods led to \$45 million in insurance claims

Less than 8% of flood victims had flood insurance

People can lose coverage or have to pay out of pocket if they are displaced

What these bills will do

The Insurance Commissioner is proposing three separate bills that together will help protect consumers in the event of an emergency.

Background

Large-scale catastrophes, such as floods, earthquakes, windstorms, wild fires and volcanic eruptions, can happen throughout our state and the effects can be devastating. Washington was struck by a major windstorm in 2006 and experienced historic flooding in both 2007 and 2009. The 2007 floods alone resulted in 1,044 claims and claims payments of nearly \$45 million.

These events remind us that in a few short hours, homes can be destroyed, infrastructure ravaged, and power, telephone and mail service can be interrupted for long periods of time. Families and businesses are displaced, leaving them struggling to accomplish the most basic tasks of early recovery.

Insurers may be located in areas where emergencies occur, but are not currently required to have a plan that addresses state and local emergencies.

The problem

Flood insurance: Flood insurance is not required outside certain federally designated flood zones and many people outside these areas don't know that flooding isn't covered under standard homeowners insurance policies.

This was illustrated in the aftermath of the 2007 flood, when less than 8 percent of people in affected areas had flood insurance. Too many citizens are exposed to devastating and unnecessary personal financial risk. This also creates a strain on other disaster assistance resources.

Displacement: Insurance is vital to recovery in the event of a natural disaster. However, such disasters can cause sudden and widespread coverage issues. For example, disruption of mail delivery or receipt could mean lost renewal notices or billing statements, resulting in cancellation of coverage. Or, if a family has to relocate, they may need to see doctors outside of their insurance network, and end up having unexpected and significant out-of-pocket expenses.

Most insurers do the right thing and choose to be flexible in times of emergency. For example, the Commissioner requested that insurers not cancel or non-renew policies for victims of the 2007 floods for a given time period – and they showed exemplary

If insurers aren't prepared, consumers could suffer

These bills would:

- **Educate consumers about flood insurance**
- **Protect consumers from unfair cancellation and costs**
- **Require insurers to be prepared**

cooperation. However, we had no way to know if all insurers had received the message and couldn't offer consumers the reassurance they were seeking. Additionally, insurers had to manually override automated systems that, because of the lack of pre-existing guidelines, could not be programmed to anticipate the need for the moratorium.

Emergency preparedness: Not all insurance companies have plans in place to make sure they are ready for a disaster. Lack of a contingency plan and reliable back-up records could disrupt service and prevent claims payments in the event of an emergency.

The solution

These bills would establish legal protections for consumers and predictability for insurers in the wake of future disasters. Specifically they would:

- Require insurers to inform consumers that property insurance does not cover flood damage and to tell them about the National Flood Insurance Program. Information would be provided in writing at policy inception and annually thereafter.
- Allow the Commissioner to require insurers to make reasonable exceptions, such as grace periods for payments and access to out-of-network medical care, in the event of an emergency. Authority would be limited to the insurance of people within the geographic area defined in the Governor's declaration.
- Expand insurers' emergency-preparedness requirements to include state and local emergencies and require domestic insurers to maintain a continuity plan in case a local, state or national emergency disrupts business operations.

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